The Hamilton Group Limited

Annual Report 1973

Presenting our new corporate identity

The cover of this year's annual report presents the first public useage of the new logotype and symbol for The Hamilton Group. It is based on an expanded "H" form, representing both the parent Company and the multiplicity and diversity of its various subsidiaries.

The Hamilton Group Limited

HIGHLIGHTS

	1973	1972
Gross income	$28,377,074.00	$22,618,880.00
Income before extraordinary items	$ 1,804,699.00	$ 1,633,509.00
Earnings available for common shares	$ 1,243,049.00	$ 1,715,489.00
Earnings per share		
Income before extraordinary items	$ .76	$ .74
Net income	$ .56	$ .79
Dividends paid	$ .26	$ .22
Total assets at the year end	$95,665,872.00	$56,807,364.00
Average number of common shares outstanding	2,224,530	2,159,067
Common shares owned in Canada	97.7%	97.7%

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DIRECTORS AND OFFICERS

HEAD OFFICE:
270 Sherman Avenue North, Hamilton, Ontario

DIRECTORS:

Francois E. Cleyn	Chairman, Cleyn & Tinker, Ltd.
George L. Davis	Chairman, Citicorp Leasing Group
Graham R. Dawson	President, Dawson Construction Ltd.
Stephen C. Eyre	Senior Vice-President, First National City Bank
Brian Livsey*	President, Citicorp Leasing Inc.
Lincoln S. Magor	President, Mimik Limited
John F. Schunk*	President, North America Business Equipment Limited and The Medi-Dent Service Limited
Robert N. Steiner	Senior Partner, A. E. Ames & Company
Alan B. Young*	Senior Vice-President, The Hamilton Group Limited
David M. Young*	Senior Vice-President, The Hamilton Group Limited
James M. Young	Vice-President, The Hamilton Group Limited
Raymond O. Young*	Vice-President, Citicorp Leasing International Inc.
W. H. Young*	President, The Hamilton Group Limited

HONORARY DIRECTOR:
Alan V. Young

* Members of the Executive Committee

OFFICERS:

William H. Young	President
Alan B. Young	Senior Vice-President
David M. Young	Senior Vice-President
John F. Schunk	Vice-President
James M. Young	Vice-President
Paul A. Southall	Vice-President and Secretary

REGISTRAR AND TRANSFER AGENT:
Canada Permanent Trust Company, Toronto, Ontario

AUDITORS:
Peat, Marwick, Mitchell & Co.

ANNUAL REPORT OF DIRECTORS

TO THE SHAREHOLDERS

The year that ended on April 30, 1973 was one of further growth and development for The Hamilton Group Limited. The Company expanded into the mortgage and factoring fields while the leasing business continued to grow. The change to a financial services organization was largely completed, and at the year end, less than 1% of the Company's assets was in textiles.

Highlights of the year were:

- An increase of 68% in total assets to $95,665,872.
- An increase of 43% in leases receivable to $84,884,388.
- Acquisition of the common shares of Charter Credit Corporation and the entry of the Company into the mortgage lending field.
- Acquisition of 50% of International Mercantile Factors, Ltd. and the entry of the Company into the factoring business.
- Commencement of construction of a new head office, to be completed in the summer of 1973.

FINANCIAL

Consolidated income before extraordinary items and minority interests was $1,825,914 for the year ended April 30, 1973. After providing for minority interests and preferred dividends this income represents 76¢ per common share on 2,224,530 shares, the average number outstanding for the year.

After deducting the extraordinary items consolidated net income was $1,351,812. The extraordinary items were losses on textile plants and equipment of $672,887 and on textile investments of $110,000. These losses were partially offset by applicable future income tax credits of $330,000 resulting in a net loss of $452,887 on textile leases and investments.

Accordingly an amount of $475,000 appropriated from retained earnings in the previous year as a reserve against loss from a possible sale of assets under lease to Cosmos, was restored as is shown in the Statement of Retained Earnings.

The quarterly dividend rate on the common shares of the Company was increased to 7¢ per share from 6¢ per share with the dividend paid on January 2, 1973.

Under the terms of an Employee Stock Purchase Plan, 25,200 common shares were purchased at $12.72 per share by 103 employees during the year. This brought the number of issued common shares to 2,240,850 at the year end.

BORROWING

Prior to fiscal '73, each subsidiary of The Hamilton Group arranged its own lines of bank credit as well as term debt under its own trust deeds. However, during the year, it was decided to bring all bank lines of credit under the wing of the parent company. Borrowings under these lines now rank as debt senior to the subordinate borrowings of The Hamilton Group, the terms of which are governed by an agreement.

The result of these changes is that The Hamilton Group is now the only source of new funds for the subsidiary companies.

ANNUAL REPORT OF DIRECTORS

The Company borrowed $10 million during the year on the commercial paper market, and in the current fiscal year will increase this sum to $20 million. The borrowings are backed 100% by unused bank lines of credit, maintained specifically for this purpose. These funds are generally at lower rates than bank loans and therefore represent a saving to the Company.

The transfer of bank lines from the subsidiaries to the parent was a time consuming activity. Consequently, the Company's plans to borrow term money during the year had to be delayed until the current fiscal year. As a result, the Company was still heavily dependent on demand loans at the close of the year and its earnings remained sensitive to changes in the prime lending rate.

The Hamilton Group's lines of credit originate in Canada, the United States and Britain. Obligations maturing within one year in a non-Canadian currency are hedged, and the hedging cost is absorbed in the cost of borrowed funds for the year.

It is disappointing to realize that the Company still has to go beyond the Canadian credit markets for the bulk of its funds. Last year the cost of borrowing U.S. and Eurodollars was considerably higher than the cost would have been from Canadian sources.

Shortly after the financial year ended, the Company arranged for a $1.5 million loan against an 8⅞% first mortgage on the new head office building at Burlington, Ontario.

CITICORP LEASING INTERNATIONAL (CLI)

On June 27, 1973, CLI subscribed for the second of three draws of 130,000, $10 par value, 7½%, series B convertible preferred shares. This agreement was described in detail in the 1972 annual report.

CLI now holds 260,000 of these preferred shares, each of which carries three votes and is convertible into three common shares of the Company.

As part of this agreement, CLI has undertaken to arrange an additional 15-year term loan of $3 million in Canadian funds at 8.45% in subordinate debentures. These funds will be available to The Hamilton Group on or before March 31, 1974. The debentures will be guaranteed by First National City Corporation and in return the Company will pay a fee of 1% per year.

DIRECTORS

At the 1972 annual meeting, Mr. Francois E. Cleyn of Huntingdon, Quebec, and Mr. Graham R. Dawson of Vancouver, B.C. were elected to the Board of Directors of The Hamilton Group Limited.

Mr. Cleyn is Chairman and Chief Executive Officer of Cleyn and Tinker Ltd., textile weavers. In addition to a number of other directorships, he is a Director of the Canada Development Corporation and has served three terms as a member of the Economic Council of Canada.

Mr. Dawson is President and Chief Executive Officer of Dawson Construction Ltd., and Chairman of Dawson Developments Ltd. He is a member of the Board of Directors of a Canadian chartered bank and several other Canadian companies.

These men are welcome additions to our Board where their wide experience and counsel is proving of great value.

On behalf of the Board,

W. H. YOUNG,

President.

HEAD OFFICE

To highlight The Hamilton Group's further expansion, the annual meeting will be held in September at the Company's new head office at 5050 South Service Road in Burlington, Ontario.

This marks one of the last steps in the Company's transition from manufacturer of textile materials to a financial services organization. The textile mill on Mary Street in Hamilton (see page 6), which was the home of The Hamilton Cotton Company Ltd. operations for nearly 90 years, is being demolished.

The new head office will provide an attractive and efficient working area to service the Company's anticipated growth, and will also play an important part in maintaining the Company's excellent employee relations.

The new building is on the Queen Elizabeth Way at Appleby Line in Burlington, a pivotal location in the Golden Horseshoe, almost equidistant from downtown Toronto and Hamilton and from the Toronto International Airport. There is easy access to all major Ontario highways.

Nine of the site's 31 acres are reserved for the Company with the remainder available for future development.

The design of the two-storey building, which has a gross area of 65,000 sq. ft., evolved from a study of The Hamilton Group's personnel and work flow requirements. The interior is designed to provide flexible movement of people combined with essential privacy and attractive surroundings. It includes meeting and training rooms, an elevator and a cafeteria, none of which was previously available.

CANADA

FINANCIAL SERVICES

Leasing operations in Canada in the year ended April 30, 1973 produced a substantial increase over 1972.

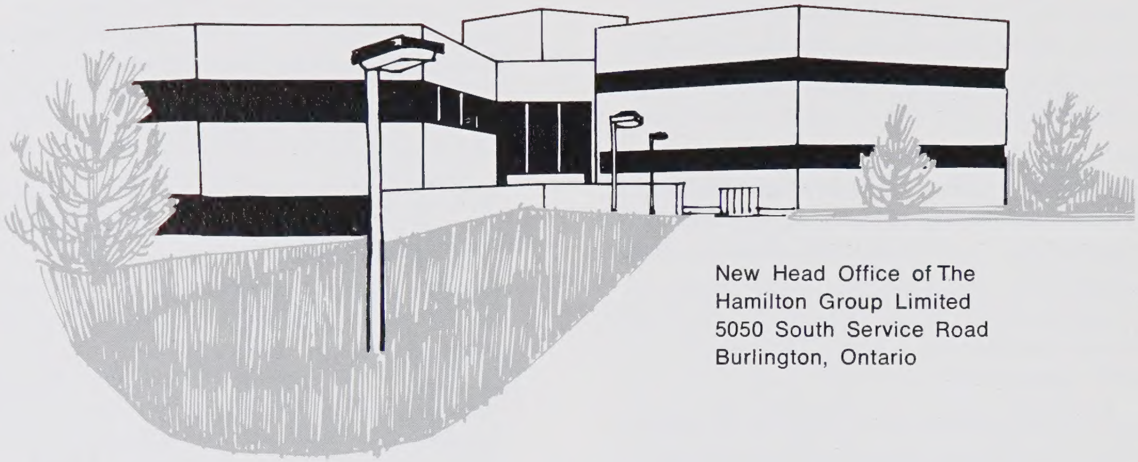
- Volume — as measured by "leases receivable added" — was $48.3 million, a 50.3% increase over the 1972 figures of $32.1 million (see page 9).
- Net income from leasing operations increased 5% over the previous year.
- Leases receivable and total assets increased by 35%. The former rose to $77.1 million from $57.3 million in 1972, and total assets rose to $65.5 million from $48.6 million.
- Net losses increased to 0.64% of leases receivable from 0.45% in the previous year. While the 0.64% figure is within the industry average, it can be improved.

Net income was adversely affected by the marked increase in borrowing costs, particularly in the last quarter; increased competition leading to lower rates; and the expenses of new offices and additional staff. Page 8 shows a five-year summary of leasing operations.

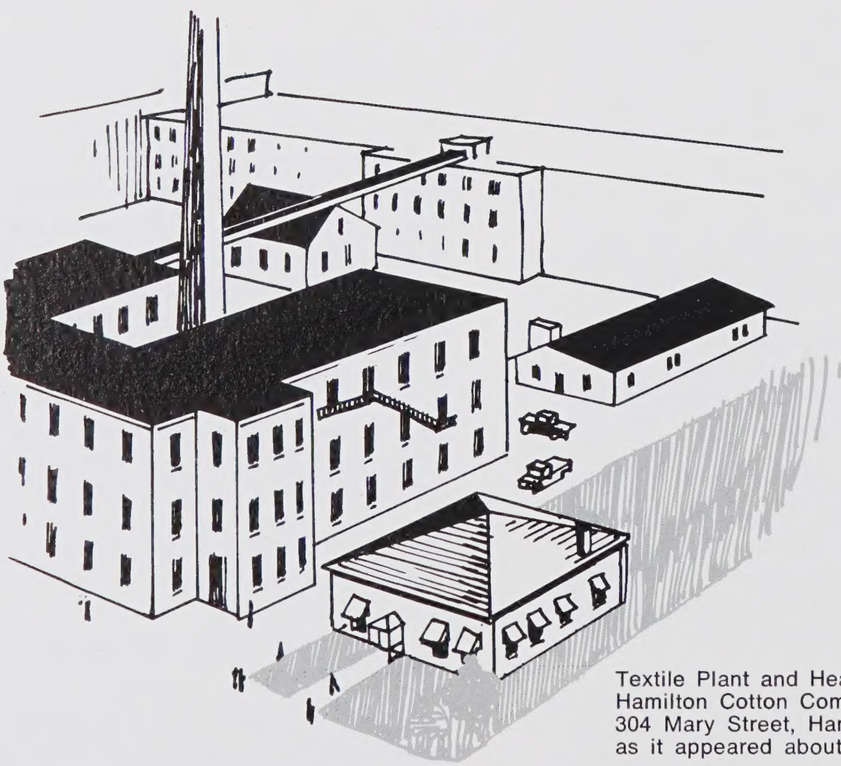
The most significant development during the past year was the continued broadening of the Company's financial services.

The acquisition a year ago of Charter Credit Corporation was reported in the last annual report.

On January 1, 1973, The Hamilton Group purchased a 50% interest in International Mercantile Factors Limited which will eventually be reduced to 40% of the outstanding common shares.



New Head Office of The Hamilton Group Limited
5050 South Service Road
Burlington, Ontario



Textile Plant and Head Office of The Hamilton Cotton Company Limited
304 Mary Street, Hamilton, Ontario
as it appeared about 1900

CANADA

These companies were under able management, which will continue in all cases, but were limited in their growth by lack of resources. With the availability of funds they will now be able better to realize their potential.

The company can now offer a full range of equipment leasing services, mortgage services and other financial services, as well as factoring facilities in conjunction with International Mercantile Factors Ltd.

Many of these services are currently available only on a local basis: consequently there is ample opportunity for geographic expansion as well as increased penetration of existing markets.

As one example of growth, Charter Credit had mortgages receivable of $7.5 million on August 1, 1972, the date of its acquisition. In the nine month period to April 30, 1973, mortgages receivable increased by 9.3% to $8.2 million. Charter Credit will become an important income producer for The Hamilton Group in the current fiscal year.

Since the year end, lease rates have been increased although they have not kept pace with rapidly rising borrowing costs. However, it is expected that the current year will show increased profits and an expanded base for continued growth.

TEXTILES

The assets of the Narrow Fabric Division of Hamilton-Yates Limited, a wholly-owned subsidiary, were sold on March 5, 1973 to Texflex Limited, a new company started by former employees. This division showed a loss prior to its sale.

Payment by Texflex of $1,205,459 was made by $305,459 in cash and $900,000 in a 7½% secured note repayable in 120 equal monthly installments.

Arrangements were completed by the year end to dispose of all textile assets under lease to Cosmos Imperial Mills Limited except for the Rope and Cordage Division at Hamilton, which is now operated by Hamilton-Yates Limited, and a building and approximately sixteen acres of land at Ajax, Ontario, which the Company had to possess under a guarantee.

Approximately $650,000 was realized from the sale of these assets of which $580,000 was cash and $70,000 in a 10% mortgage.

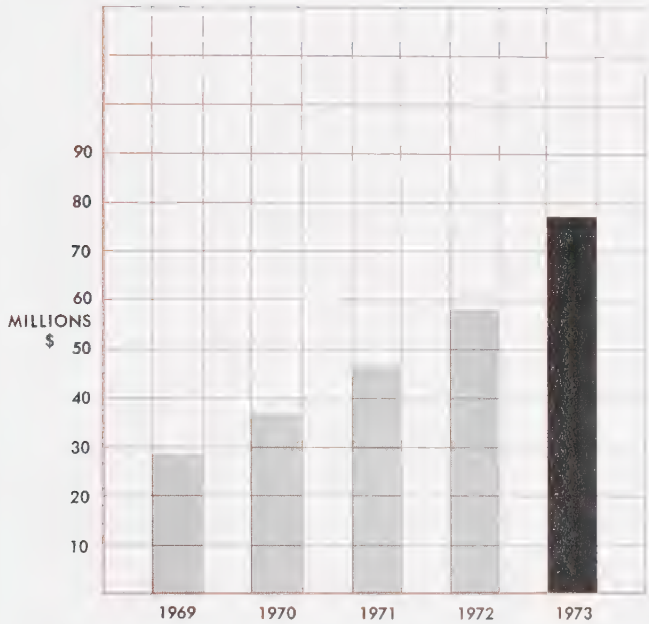
On completion of these transactions, the Company will have only its involvement in the Rope and Cordage Division, with working capital and fixed assets of less than $500,000, and real estate in Hamilton, Dundas and Ajax, Ontario, remaining from the days when it was entirely a textile operation.

CANADIAN LEASING

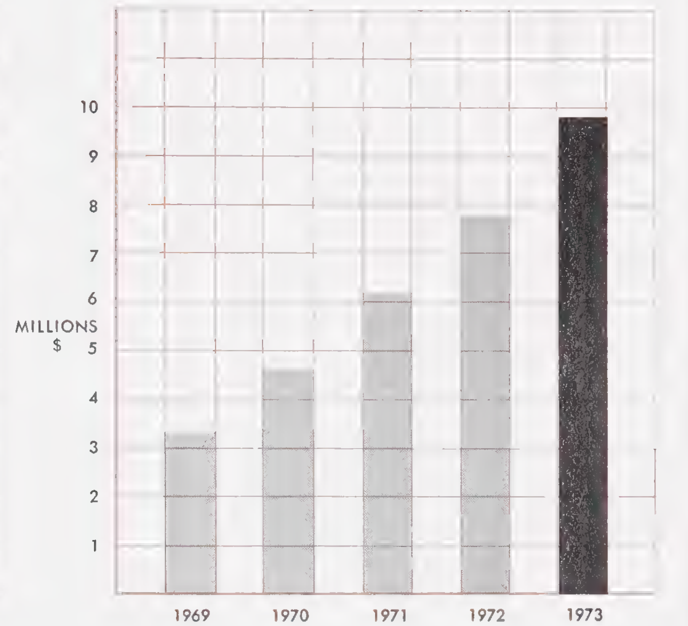
COMBINED FIVE-YEAR SUMMARY
(Dollar amounts expressed in $000's)

		1973	1972	1971	1970	1969
BALANCE SHEET						
Leases receivable	$	77,140	57,288	45,977	36,159	27,414
Allowance for losses	$	1,219	1,074	814	577	430
Allowance for losses to leases receivable	%	1.6	1.9	1.8	1.6	1.6
Unearned income	$	17,731	13,625	11,554	8,983	6,367
Unearned income to leases receivable	%	23.0	23.8	25.1	24.8	23.2
Estimated residual value of equipment	$	3,154	2,385	1,818	1,262	742
Total assets	$	65,523	48,590	38,127	30,920	23,707
OPERATIONS						
Lease income	$	24,220	18,571	14,450	11,121	8,730
Earned income	$	9,812	7,792	6,264	4,694	3,433
Provision for losses	$	619	519	470	450	448
Leases receivable added	$	48,271	32,126	26,184	21,214	14,138
Original cost of leased equipment	$	98,620	73,592	57,803	45,897	35,685
Net losses due to bad debts	$	475	260	232	301	292
Net losses to average leases receivable	%	0.64	0.45	0.50	0.83	1.07
Number of employees at end of period		212	166	137	105	63
Number of leases		63,200	51,300	41,200	32,600	25,200
Average original cost of equipment per lease	$	1.56	1.44	1.40	1.41	1.42

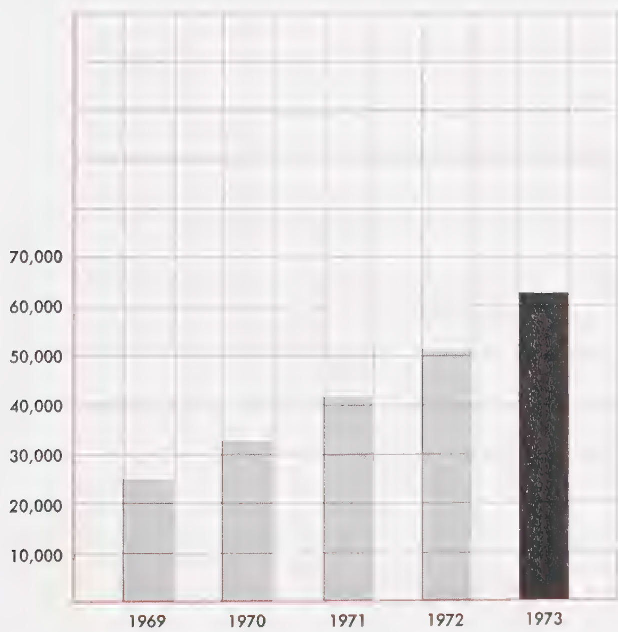
CANADIAN LEASING



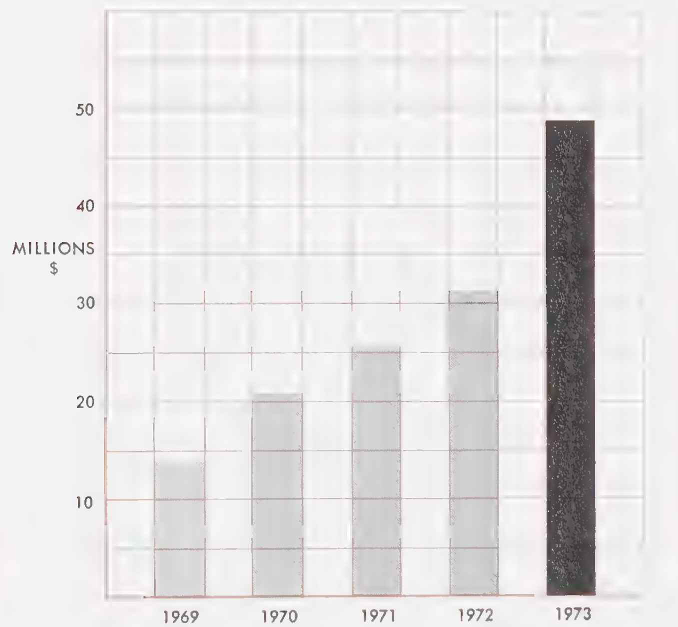
LEASES RECEIVABLE



EARNED INCOME



NUMBER OF LEASES



LEASES RECEIVABLE
ADDED

INTERNATIONAL

Hamilton Leasing Limited (HLL)

Hamilton Leasing had a difficult time in the second half of the year ended May 31, 1973. While lease income was up 30% over the previous year, profits increased by only 10%.

The reason for this pressure on profit margin was the British price freeze, which lasted from November, 1972 until May, 1973. During this period interest rates were not controlled whereas leasing rates were fixed and by March of this year Hamilton Leasing was paying 11½% for money that had cost 6½% nine months before.

On May 1, 1973, Phase 2 was introduced. Under it the Company was able to increase rates to compensate for higher interest costs.

During the year the merger with Hamilton Industrial Leasing was completed. HIL has been a profitable operation since it began, although it too has been affected by the general squeeze on profit margins.

Medenta Services, referred to in the 1972 annual report, had a disappointing year. On April 1, 1973, Britain switched to a Value Added Tax system, similar to provincial sales tax in Canada, and this hurt the company badly.

In addition, Medenta also was affected by higher interest costs, which reduced profitability on the leases it did get.

The prospects now appear excellent for Medenta. The tax complications are over and margins have been restored.

During the year The Hamilton Group received $122,034 in cash dividends from HLL, and $226,800 in stock dividends. At April 30, 1973 the Company's shareholding in HLL was $1,314,650.

HGL (U.K.) Finance Limited, London
HGL International Finance Limited, London

These companies were inactive during the year. HGL (U.K.) existed solely to hold the shares of Labhire and Labservice, purchased in 1972.

Labhire Limited, London
Labservice Limited, London
Lablease Limited, London

A major expansion program during the year resulted in these companies returning a small pre-tax loss of $11,000.

When The Hamilton Group Limited purchased these companies in 1972, they employed twelve people and operated from two small offices, one in Bourne End, near Maidenhead and the other outside Manchester.

During the year the two companies arranged for new premises for both companies; started and staffed a Scottish office; and started and staffed Lablease Limited. The expenses of these activities have been written-off and the Scottish office and Lablease are only now starting to develop business.

Lablease was formed to complete the range of services offered by the Labhire group. It will offer non pay-out and full pay-out leases, with or without maintenance, for longer periods than the usual rental terms from Labhire.

In addition to these expansions, Labhire and Lablease were formed in Germany and Labhire in France. None of these had commenced to operate by April 30, 1973, and the British companies had to absorb much of the setting-up expense in their own financial statements.

INTERNATIONAL

Finally, as part of these expansion moves, Labhire more than doubled its inventory of equipment for hire, and greatly increased its advertising and promotion expenditures. These moves are paying off now in increased business.

FRANCE

Societe de Gestion de Biens d'Equipment (SOGEBE), Paris

The merger of SOGEBE into Bail Equipement, discussed in last year's annual report, was completed in April, 1973.

Immediately prior to this merger, and as part of the merger agreement, SOGEBE had a capital increase and the Company's investment in SOGEBE increased from $417,494 to $548,447 by the payment of $130,953 for the purchase of 6,216 additional 100-franc shares of SOGEBE.

All the SOGEBE shares were exchanged on April 25, 1973 for shares in Bail Equipement, on the ratio of two SOGEBE for one B.E. As B.E. shares were then selling on the Paris Bourse at 224 francs this put a market value of 112 francs on The Hamilton Group's 100 franc shares, and resulted in a year end valuation of the investment in B.E. of $713,329.

The Hamilton Group now owns 2% of Bail Equipement, and has no further role in the management or direction of its leasing investment in France and holds these shares as marketable securities.

MEXICO

Impulsora de Equipos de Oficina, S.A. de C.V. (IEOSA)

It was mutually agreed to discontinue the proposed arrangements to sell control of IEOSA to Citicorp Leasing International, Inc. because of changed circumstances in Mexico. The Hamilton Group will retain, therefore, a 70% interest in IEOSA and continue to oversee both management and financing. As such the IEOSA financial results are consolidated for the first time. The auditors of IEOSA are the respected Mexican firm of Casa Alatriste who are associated with Coopers Lybrand.

Since May 8, 1973, all new companies incorporating in Mexico City are required to be at least 51% owned by Mexican citizens, although for the time being, IEOSA is exempt from this requirement.

In the meantime, The Hamilton Group will assist IEOSA to expand as rapidly as possible, consistent with service to its customers.

IEOSA now has representation in Acapulco, Monterrey, Guadalajara, Mazatlan, Puebla, Tampico, Tijuana and Vera Cruz. Subsidiaries are Medi-Dent, S.A., health services leasing; Unilease, S.A., large direct leases; a new automotive leasing company; and Rent-E-Quipo, S.A., short term rental of office equipment. These make IEOSA the only nation-wide company offering a full range of equipment leasing services.

This broadened base has resulted in leases receivable growing to more than 100 million pesos (approximately $8 million Canadian). Leases receivable added during the year ended September 30, 1972, were up 125% over the previous year and continue to show remarkable growth.

Net income for the year ended September 30, 1972 was 159,352 pesos equivalent to $12,796 Canadian.

The outlook for IEOSA remains extremely bright.

The Hamilton Group Limited

INTERNATIONAL

HAMILTON LEASING LIMITED
(all figures in 000's of pounds sterling)

INCOME AND DIVIDENDS	11 Months Ended April 30, 1973	Year ended May 31 1972	1971	1970	1969
Lease income	10,257	7,361	5,281	4,008	2,861
Net income	846	731	529	290	220
Preference dividends	45	49	50	51	51
Earnings available for common shareholders	801	682	479	239	169
Common dividends	95	216	136	—	—
Retained earnings	706	466	343	239	169

SHAREHOLDERS' EQUITY	1973	1972	1971	1970	1969
Issued capital:					
Common shares	1,691	1,353	1,128	685	480
Preference shares	500	500	500	500	500
Reserves and retained earnings	1,498	1,130	492	407	170
Shareholders' equity	3,689	2,983	2,120	1,592	1,150

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited and subsidiaries as of April 30, 1973 and the consolidated statements of income, retained earnings, contributed surplus, reserve for possible loss on textile leases and changes in financial position for the year then ended. Our examination of the financial statements of The Hamilton Group Limited and those subsidiaries whose financial statements have been consolidated of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the Mexican subsidiaries. The assets of these subsidiaries represent approximately 7% of the consolidated assets.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at April 30, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Hamilton, Ontario,
June 22, 1973

The Hamilton Group Limited

CONSOLIDATED FINANCIAL STATEMENTS

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
(note 1)
CONSOLIDATED BALANCE SHEET
April 30, 1973
with comparative figures for 1972

ASSETS

	1973	1972
Cash and short term deposits	$ 5,857,995	$ 2,618,949
Leases receivable (notes 2 and 6)	84,884,388	59,349,313
Mortgages receivable	8,227,566	—
Allowance for losses	(1,502,160)	(1,073,777)
Unearned income (note 2)	(20,259,777)	(14,377,073)
Estimated residual value of property and equipment (note 2)	3,483,083	2,505,027
Equipment purchased for lease commitments, at cost	3,421,335	1,830,783
Notes and accounts receivable	2,434,662	835,023
Inventories (note 3)	146,698	871,453
Real estate held for sale, at cost	64,671	64,671
Prepaid expenses and deposits	108,687	65,795
Investments and advances (note 4):		
Subsidiary companies not consolidated	82,788	377,017
Others	3,479,071	2,060,179
Property, plant, equipment and improvements (note 5)	3,603,990	1,615,202
Deferred financing expenses less amounts written off	124,261	64,802
Excess of cost over net book value of subsidiaries at dates of acquisition less amounts written off	1,508,614	—
	$95,665,872	$56,807,364

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
(note 1)
CONSOLIDATED BALANCE SHEET
April 30, 1973
with comparative figures for 1972

LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
Short term secured debt (note 6)	$ 3,955,200	$27,327,306
Short term unsecured debt	60,130,421	1,555,000
Notes and accounts payable and accrued charges	5,152,376	2,869,208
Income and other taxes payable	163,164	504,015
Long term secured debt (note 6)	3,784,219	5,521,561
Subordinated funded debt (note 7)	8,033,800	6,287,055
Deferred income taxes	1,935,883	1,717,616
Minority interests in subsidiary companies	503,768	—
Shareholders' equity:		
Capital stock (note 8):		
5% first preferred shares, Series A	210,300	232,600
7½% second preferred shares	1,300,000	1,300,000
Common shares	3,901,337	3,566,793
	5,411,637	5,099,393
Retained earnings	6,407,055	5,268,423
Contributed surplus	188,349	182,787
Reserve for possible loss on textile leases	—	475,000
Total shareholders' equity	12,007,041	11,025,603
Contingent liabilities and commitments (note 9)		
	$95,665,872	$56,807,364

On behalf of the Board:

W. H. YOUNG, Director

A. B. YOUNG, Director

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
(note 1)
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
Year ended April 30, 1973
with comparative figures for 1972

	1973	1972
Amount at beginning of year	$ 5,268,423	$ 4,505,158
Add:		
Net income	1,351,812	1,754,509
Transfer of appropriation for possible loss on textile leases	475,000	(475,000)
	7,095,235	5,784,667
Deduct:		
Dividends:		
First preferred shares, Series A	11,263	11,980
Second preferred shares	97,500	27,040
Common shares	579,417	477,224
	688,180	516,244
Amount at end of year	$ 6,407,055	$ 5,268,423

(note 1)
CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
Year ended April 30, 1973
with comparative figures for 1972

	1973	1972
Amount at beginning of year	$ 182,787	$ 179,962
Discount on redemption of preferred shares of the company and a subsidiary	5,562	2,825
Amount at end of year	$ 188,349	$ 182,787

(note 1)
CONSOLIDATED STATEMENT OF RESERVE FOR POSSIBLE LOSS ON TEXTILE LEASES
Year ended April 30, 1973
with comparative figures for 1972

	1973	1972
Amount at beginning of year	$ 475,000	$ —
Appropriated from consolidated retained earnings	—	475,000
Transferred to consolidated retained earnings	475,000	—
Amount at end of year	$ —	$ 475,000

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
(note 1)
CONSOLIDATED STATEMENT OF INCOME
Year ended April 30, 1973
with comparative figures for 1972

	1973	1972
Gross income (note 10)	$28,377,074	$22,618,880
Income before the following	$20,663,156	$16,152,288
Recovery of cost of leased property	14,072,333	10,885,864
Cost of borrowed money including $897,237 (1972—$753,619) on indebtedness initially incurred for a term exceeding one year	3,923,084	2,632,928
Depreciation and amortization	277,711	159,194
	18,273,128	13,677,986
Operating income	2,390,028	2,474,302
Investments:		
Income	474,536	327,197
Gain (loss) on revaluation (net)	74,144	(38,722)
Amortization of goodwill	(45,204)	—
	503,476	288,475
Profit on disposal of fixed assets	34,410	83,732
Income before income taxes, minority interests and extraordinary items	2,927,914	2,846,509
Income taxes (note 11):		
Current	498,000	711,000
Deferred	604,000	502,000
	1,102,000	1,213,000
Income before minority interests and extraordinary items	1,825,914	1,633,509
Minority interests	21,215	—
Extraordinary items:		
Loss on textile leases and investments less deferred income taxes of $330,000	452,887	—
Income tax credits arising from prior years' losses	—	(121,000)
Net income	$ 1,351,812	$ 1,754,509
Earnings per share (note 12):		
Income before extraordinary items	$ .76	$ .74
Net income	$ .56	$ .79

See accompanying notes to consolidated financial statements.

The Hamilton Group Limited

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
(note 1)
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended April 30, 1973
with comparative figures for 1972

	1973	1972
Funds provided:		
Net income	$ 1,351,812	$ 1,754,509
Provision for losses	679,523	519,152
Depreciation and amortization	277,711	159,194
Amortization of goodwill	45,204	—
Deferred income taxes	274,000	502,000
Funds provided from operations	2,628,250	2,934,855
Increase in short term unsecured debt	58,575,421	1,555,000
Increase in subordinated debt	1,746,745	2,784,733
Increase (decrease) in liabilities other than borrowings	1,942,317	(1,188)
Refund of income taxes	—	393,201
Proceeds from issue of second preferred shares	—	1,300,000
Proceeds from issue of common shares	334,544	463,150
Minority shareholders' interests in subsidiary companies	503,768	—
Other (net)	566,671	6,864
	$66,297,716	$ 9,436,615
Funds used:		
Increase in leases receivable	$25,535,075	$10,990,183
Increase in residual values	978,056	566,544
Net losses	251,140	259,502
Increase in unearned income	(5,882,704)	(1,944,821)
Funds invested in leases receivable	20,881,567	9,871,408
Increase in cash and deposits	3,239,046	1,523,243
Increase in mortgages receivable	8,227,566	—
Increase in accounts receivable	1,599,639	177,528
Increase in equipment purchased for lease commitments	1,590,552	1,063,701
Additions to fixed assets (net)	2,266,499	214,715
Increase in investment in other companies	1,124,663	192,800
Decrease (increase) in short term secured debt	23,372,106	(4,684,044)
Decrease in long term secured debt	1,737,342	544,845
Redemption of preference shares	16,738	16,175
Dividends declared	688,180	516,244
Goodwill on purchase of subsidiary companies	1,553,818	—
	$66,297,716	$ 9,436,615

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1973

1. The consolidated financial statements include the accounts of the company and all significant subsidiaries. All material inter-company balances and transactions have been eliminated. The subsidiaries not consolidated are either inactive or not considered material.

The subsidiaries not consolidated are carried at equity. These subsidiaries generated an aggregate net income of $34,267 for their fiscal years ended in the year ended April 30, 1973. The aggregate accumulated losses from dates of acquisition amount to $56,384.

On August 1, 1972 the company acquired all the issued and outstanding common shares of Charter Credit Corporation (Charter) which, through its six wholly-owned subsidiaries, is engaged in mortgage financing.

Two subsidiaries of the company each made relatively minor acquisitions by purchasing all the issued and outstanding shares of other companies on June 21, 1972, effective as of May 1, 1972, for one such acquisition and on March 30, 1973 for the other. Both the acquired companies are connected with the business of leasing.

The acquisitions were accounted for as purchases. The consolidated net assets of the acquired companies at dates of acquisition were:

	Charter	Other
Consolidated net tangible assets of acquired companies at their book values	$1,766,784	$ 63,685
Deduct preferred shares	472,200	—
	1,294,584	63,685
Excess of costs of acquisition over net asset values at book values	1,217,293	341,205
Costs of acquisition	$2,511,877	$ 404,890

The costs of acquisition were satisfied by:

	Charter	Other
Payment of cash to the shareholders of the acquired companies	$1,500,000	$ 354,890
Payment of cash to a Canadian chartered bank	—	50,000
The issue of 9% subordinated notes payable to the shareholders of Charter	1,000,000	—
Payment of expenses of acquisition	11,877	—
	$2,511,877	$ 404,890

The excess of cost of acquisition of Charter over the net asset value and the cost of acquisition of one other company acquired have been treated as goodwill which is amortized over twenty years. It is not proposed at this time to amortize the remaining excess of cost of acquisition over the net asset values. The consolidated results of operations of the acquired companies have been included in the consolidated statements of income and retained earnings for the periods from dates of acquisition to April 30, 1973.

The Hamilton Group Limited

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1973

2. The leasing subsidiaries generally follow the practice of recording gross rentals to be received over the periods of the leases and, except for two subsidiaries, estimated residual values on leases written (estimated as a percentage of the original equipment cost) as assets when leases are executed. The excess of such amounts over the cost of the related equipment is recorded as unearned income. For a relatively small number of leases, where residual values are contractual, unearned income is determined on cost net of such residual values. A portion of the unearned income is credited to current income at the commencement of the lease periods in an amount estimated to offset lease acquisition costs. The balance of unearned income is credited to current income over the terms of the leases in diminishing periodic amounts on the sum of the digits method based on payments deemed to be made in accordance with the lessees' contractual obligations. The balance of the payments deemed to be made is recorded as recovery of cost of leased equipment.

   The lease contracts provide for periodic payments to be received over their terms. The amount of rentals to be received over the next five years and thereafter is summarized below:

	1973	1972
Within:		
One year	$27,142,925	$18,746,616
Two years	23,740,977	16,706,940
Three years	17,344,509	12,532,875
Four years	11,117,060	7,716,306
Five years	4,608,803	3,115,772
Thereafter	930,114	530,804
	$84,884,388	$59,349,313

3. Inventories are valued at the lower of cost or replacement cost for raw materials and at the lower of cost or net realizable value for work in process and finished goods.

4. Investment and advances:

	1973	1972
Subsidiary companies not consolidated:		
Investment in shares (note 1)	$ 55,766	$ 151,926
Advances	27,022	225,091
	$ 82,788	$ 377,017
Other companies:		
Investment in shares:		
At equity	$ 311,783	$ —
At cost plus value of stock dividends	1,314,650	1,087,850
At cost	830,561	848,613
At market value	713,329	110,000
	3,170,323	2,046,463
Advances	308,748	13,716
	$ 3,479,071	$ 2,060,179

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1973

5. Property, plant, equipment and improvements:

	1973	1972
Buildings:		
As valued by the Board of Directors on March 23, 1969	$ 391,421	$ 391,421
At cost	1,809,155	81,743
	2,200,576	473,164
Equipment and improvements:		
As valued by the Board of Directors on April 30, 1973	147,742	—
At cost	1,234,790	1,728,704
	1,382,532	1,728,704
Automobiles, at cost	345,733	209,740
	3,928,841	2,411,608
Less accumulated depreciation and amortization	862,907	1,331,045
	3,065,934	1,080,563
Land:		
As valued by the Board of Directors on March 23, 1969	154,552	154,552
Additions after March 23, 1969, at cost	383,504	380,087
	538,056	534,639
	$ 3,603,990	$ 1,615,202

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1973

6. Two leasing subsidiary companies are authorized to issue various series of secured notes and debentures in unlimited amount but only upon and subject to the conditions and limitations as set forth in Trust Indentures dated December 1, 1964 and October 1, 1965 both as subsequently amended. Equipment leases having an aggregate value of $66,391,650 have been deposited with the Trustee as security for the notes and debentures.

The short term debt is secured by notes and debentures issued in amounts aggregating $5,024,838 (1972, $29,390,125) of which $1,504,438 (1972, $9,484,251) is payable in U.S. funds.

Long term secured debt (payable by subsidiary companies):

Maturing in year ending April 30	Including amounts payable in U.S. funds of	Rate %	1973	1972
Notes:				
1973	$ —	9-1/2	$ —	$ 5,000
1974	100,000	10-3/4	102,531	1,153,937
1975	600,000	7-11/16 - 10-3/4	642,531	1,607,530
1976	300,000	10-3/4	307,594	307,594
Senior notes:				
1978	375,000	6-1/2	403,563	—
1984	—	6-3/4	1,268,000	—
First series debentures:				
1973	—	7-3/16	—	497,500
1974	—	7-1/2	—	90,000
1975	90,000	7-1/2	265,000	840,000
1976	—	7-1/2 - 7-3/4	275,000	500,000
1969 debentures:				
1985	—	8-1/2	250,000	250,000
1985	250,000	7-1/2	270,000	270,000
			$ 3,784,219	$ 5,521,561

The 1969 debentures require annual sinking fund payments of $20,000 and $20,000 U.S. on July 1 in each of the years 1973 to 1983 inclusive and may be redeemed at the company's option at a premium of 10% to June 30, 1979, reducing by 2% annually thereafter.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1973

7. Subordinated funded debt:

	1973	1972
6½% Subordinated Debentures Series A maturing June 1, 1980 of which $50,000 are required to be retired by way of sinking fund on June 1, in each of the years 1973 to 1979 inclusive. The debentures are redeemable at the company's option at a premium of 3% to June 1, 1973 reducing by ½ of 1% annually thereafter to no premium after June 1, 1979	$ 1,250,000	$ 1,300.000
8% Subordinated Serial Debentures Series B maturing as to $29,500 U.S. on June 1 and December 1 in each of the years 1973 to 1977 inclusive and June 1, 1978 and as to $28,000 U.S. on December 1, 1978. The debentures are redeemable at the company's option at the principal amount plus costs of purchase not exceeding ½ of 1% ($352,500 U.S.)	380,700	444,420
Due November 16, 1976 (U.S. funds $376,471) repayable $47,059 U.S. semi-annually 8%	406,187	507,735
Junior subordinated notes payable due August 1, 1979 maturing in equal annual instalments on August 1, 1973 to 1979 inclusive:		
8¼%	153,125	175,000
9%	752,413	859,900
8½% Senior subordinated debentures maturing in 1986 repayable in equal semi-annual instalments of $225,660, including principal and interest, commencing June 15, 1977	3,000,000	3,000,000
9% Subordinate notes payable maturing annually in equal amounts of $250,000 commencing August 1, 1974	1,000,000	—
7% Debentures maturing April 1, 1978 U.S. $125,000	134,875	—
7% Debentures maturing August 1, 1978	216,000	—
6½% Sinking fund debentures, ranking equally with the 7% debentures:		
Due February 1, 1975	498,000	—
Due February 1, 1976	242,500	—
	$ 8,033,800	$ 6,287,055

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1973

8. Capital stock:

	1973	1972
First preferred shares issuable in Series of a par value of $100 each. Authorized 39,080 shares; issued 2,103 shares, 5% cumulative redeemable sinking fund first preferred shares Series A after redemption of 223 shares during the year .	$ 210,300	$ 232,600
7½% cumulative redeemable convertible second preferred shares of a par value of $10 each. Authorized 390,000 shares; issued 130,000 shares	1,300,000	1,300,000
Common shares of no par value. Authorized 7,500,000 shares; issued 2,240,850 shares including 6,000 shares issued for cash during the year on the exercise of warrants, and 25,200 shares under an employees' stock purchase plan	3,901,337	3,566,793
	$ 5,411,637	$ 5,099,393

The first preferred shares, Series A are redeemable at $101 plus accrued and unpaid dividends. The company is required to provide $15,000 (or less in certain circumstances) annually for the redemption of preferred shares which provision was fulfilled for the current year.

Under the terms of a share purchase agreement dated December 16, 1971 the unissued 7½% second preferred shares are to be issued for cash in two lots of 130,000 shares each to be delivered and taken up on June 30, 1973 and December 31, 1974 respectively.

Each 7½% cumulative redeemable convertible second preferred share is convertible at the option of the holder thereof at any time on or prior to December 31, 1981 into fully paid and non-assessable common shares of the capital stock of the company at the initial conversion rate of three common shares for each second preferred share tendered for conversion. Each holder of a second preferred share is entitled at all general meetings of shareholders of the company to three votes for each second preferred share held by him.

The company may redeem at any time after December 31, 1976 the second preferred shares, in whole or in part, on payment for each such share to be redeemed the amount paid up thereon together with an amount equal to accrued and unpaid dividends.

On January 1 in each of the years 1982 to 1991, both inclusive, the company shall set aside certain amounts as a sinking fund for the redemption of the second preferred shares.

1,170,000 common shares have been reserved for the future conversion of the 390,000 second preferred shares authorized, such reservation being irrevocable prior to December 31, 1981.

105,000 common shares have been reserved for issuance under an employees' stock purchase plan, of which 25,200 shares were issued during the year to employees under the plan for $320,544 of which $77,369 has been paid in cash. The balance of subscriptions receivable, $243,175 is included in accounts receivable to be recovered through payroll deductions.

At April 30, 1973, 5,000 common shares of a subsidiary were reserved for issuance to the holders of common share purchase warrants at a price of $4 per share if purchased on or before August 15, 1974 and at $8 per share thereafter if purchased on or before August 15, 1979 when they expire.

9. Contingent liabilities:

The Department of National Revenue has questioned the deductibility of certain rental payments made under sale and lease back transactions for the tax years 1964 to 1968 inclusive. These transactions commenced in 1962 and were accepted by the Department for that year and 1963. If re-assessments are made the additional income taxes after adjusting capital cost allowances will be approximately $200,000 with interest. The company will object to any such re-assessment as in the opinion of management and counsel no additional taxes are exigible.

A foreign country has claimed taxes on certain profits made by the company in prior years. The company has claimed offsetting losses which, in its opinion, more than offset such claim. The ultimate liability for such taxes, if any, cannot yet be determined. The company's assets in that country have been seized in connection with the claim. Full provision has been made for the loss of those assets.

Commitments:

Forward exchange contracts for $16,000,000 U.S. (1972 $11,000,000) and £1,000,000, maturing on various dates to September 18, 1974.

10. Gross income arises from:

	1973	1972
Lease rentals and related income	$24,610,526	$19,131,440
Sales	2,885,554	3,487,440
Interest from mortgages and agreements of sale	880,994	—
	$28,377,074	$22,618,880

11. Income taxes payable by the company and its subsidiaries are reduced through the application of prior years' losses and from the claiming of depreciation for tax purposes in excess of amounts recorded. Additional losses are available for application against taxable income of future years.

12. Earnings per share:

If it were assumed that the 130,000 7½% cumulative redeemable second preferred shares were converted on the basis of three common shares for every preferred share held as of May 1, 1972 the earnings per share would have been:

	1973	1972
Income before extraordinary items	$ .69	$ .70
Net income	$ .51	$ .75

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1973

In the fully diluted earnings per share calculation the following assumption has been made:
that the dividends paid on the second preferred shares had been invested to produce an annual return of 9% or an imputed income after applicable tax of $2,200.

13. Remuneration of officers and directors:

    In 1973 the aggregate remuneration as directors of the company's thirteen directors amounted to $8,350 ($4,200 for twelve directors in 1972); the aggregate remuneration as officers of the company's seven officers amounted to $240,440 of which $16,440 was paid by a subsidiary ($166,000 for five officers in 1972); during 1973 five officers were also directors (four in 1972).

14. Current assets and liabilities arising in foreign currencies have been translated at the rates of exchange in effect at April 30, 1973. Other foreign currency items have been translated at the rates in effect when the transactions occurred.

SUBSIDIARY COMPANIES:

North America Business Equipment Limited (100% owned)
5050 South Service Road, Burlington, Ontario

(Vendor leasing of office equipment)

President	J. F. Schunk
Vice-President, Marketing	B. C. Bergstrom
Vice-President, Credit	J. R. Screaton
Treasurer	R. A. Fielding
Secretary	O. M. Nitschke
Assistant to the President	R. C. Louth

Eastern Region: 2100 Drummond Street, Montreal, Quebec

Regional Manager	J. H. Sullivan

Representation:

St. John's, Newfoundland
Halifax, Nova Scotia
Quebec City, Quebec
Montreal, Quebec
Ottawa, Ontario

Central Region: 5050 South Service Road, Burlington, Ontario

Regional Manager	W. R. Boadway

Representation:

Hamilton, Ontario
London, Ontario
Sudbury, Ontario
Toronto, Ontario

Western Region: 1477 West Pender Street, Suite 220
Vancouver, British Columbia

Regional Manager	R. J. Kolari

Representation:

Winnipeg, Manitoba
Edmonton, Alberta
Calgary, Alberta
Vancouver, British Columbia

SUBSIDIARY COMPANIES (Continued)

The Medi-Dent Service Limited (100% owned)
5050 South Service Road, Burlington, Ontario
(Leasing to the health services professions)

President	J. F. Schunk
Vice-President, Marketing	L. W. Maddison
Secretary-Treasurer	O. M. Nitschke

Eastern Region: 1515 Mazurette Street, Suite 3
Montreal, Quebec

Regional Manager	R. L. Dessureault

Representation:
Halifax, Nova Scotia
Montreal, Quebec
Ottawa, Ontario

Central Region: 5050 South Service Road
Burlington, Ontario

Regional Manager	C. B. Glassco

Representation:
Hamilton, Ontario
Toronto, Ontario

Western Region: 10235 - 124th Street, Suite 103
Edmonton, Alberta

Regional Manager	D. L. Winget

Representation:
Winnipeg, Manitoba
Edmonton, Alberta
Calgary, Alberta
Vancouver, British Columbia

Direct Leasing Limited (100% owned)
5050 South Service Road, Burlington, Ontario
(Leasing to commerce and industry)

President	W. J. Bell

Representation:
Hamilton, Ontario
Toronto, Ontario
Ottawa, Ontario
Montreal, Quebec
Vancouver, British Columbia

SUBSIDIARY COMPANIES (Continued)

Charter Credit Corporation (100% owned)
50 Place Cremazie, Suite 901
Montreal, Quebec

(Mortgages for residential and commercial properties)

President	Elliot Godel
Vice-President	George Reinhart

Branch Office: Halifax, Nova Scotia

Labhire Limited
Labservice Limited
Lablease Limited
Bourne End, Bucks, England - (100% owned)

(Rental, service and leasing of specialized technical equipment)

Managing Director	Peter Finch

Impulsora de Equipos de Oficina S.A. de C.V. (70% owned)
Atenas 56
Mexico City, Mexico D.F.

(Leasing to commerce, industry, professions and health services)

President	Emile Jacobs
Executive Vice-President	Anthony Genth
Vice-President, Administration	Guillermo Valdez

Representation:

Acapulco
Monterrey
Guadalajara
Tijuana
Vera Cruz
Mazatlan
Puebla
Tampico

AFFILIATED COMPANIES

International Mercantile Factors Ltd. (50% owned)
1010 St. Catherine Street West
Montreal, Quebec

(Factoring service)

Chairman of the Board	G. Fox
President	J. J. A. Walling
Senior Vice-President	F. Schleifer
Vice-President	J. A. Conway

Hamilton Leasing Limited (28% owned)
47 Great Eastern Street
London E.C., England

(Leasing to commerce, industry, professions and health services)

Chairman	D. M. Young
Managing Director	F. V. Shapland

Representation:

Dublin, Ireland
London
Birmingham
Leeds
Manchester
Glasgow
Southampton
Bristol

BANKERS

CANADA	Bank of Nova Scotia Canadian Imperial Bank of Commerce The Mercantile Bank of Canada Royal Bank of Canada Toronto-Dominion Bank
UNITED KINGDOM	Arbuthnot, Latham & Co. Limited Wm. Brandt's Sons & Co. Ltd. Charterhouse Japhet Limited Hill Samuel & Co. Limited International Commercial Bank Limited
UNITED STATES OF AMERICA	American Express International Banking Corporation The Chase Manhattan Bank The Detroit Bank and Trust Company The Fidelity Bank The First National Bank of Chicago Irving Trust Company Marine Midland Bank—Western The Philadelphia National Bank Wachovia Bank and Trust Company Wells Fargo Bank

The Hamilton Group Limited